



# Economic Outlook & Stock Market Strategy

*Symphonic*  
FINANCIAL ADVISORS

by Rochdale Investment Management  
for Symphonic Financial Advisors & their clients

June 2010

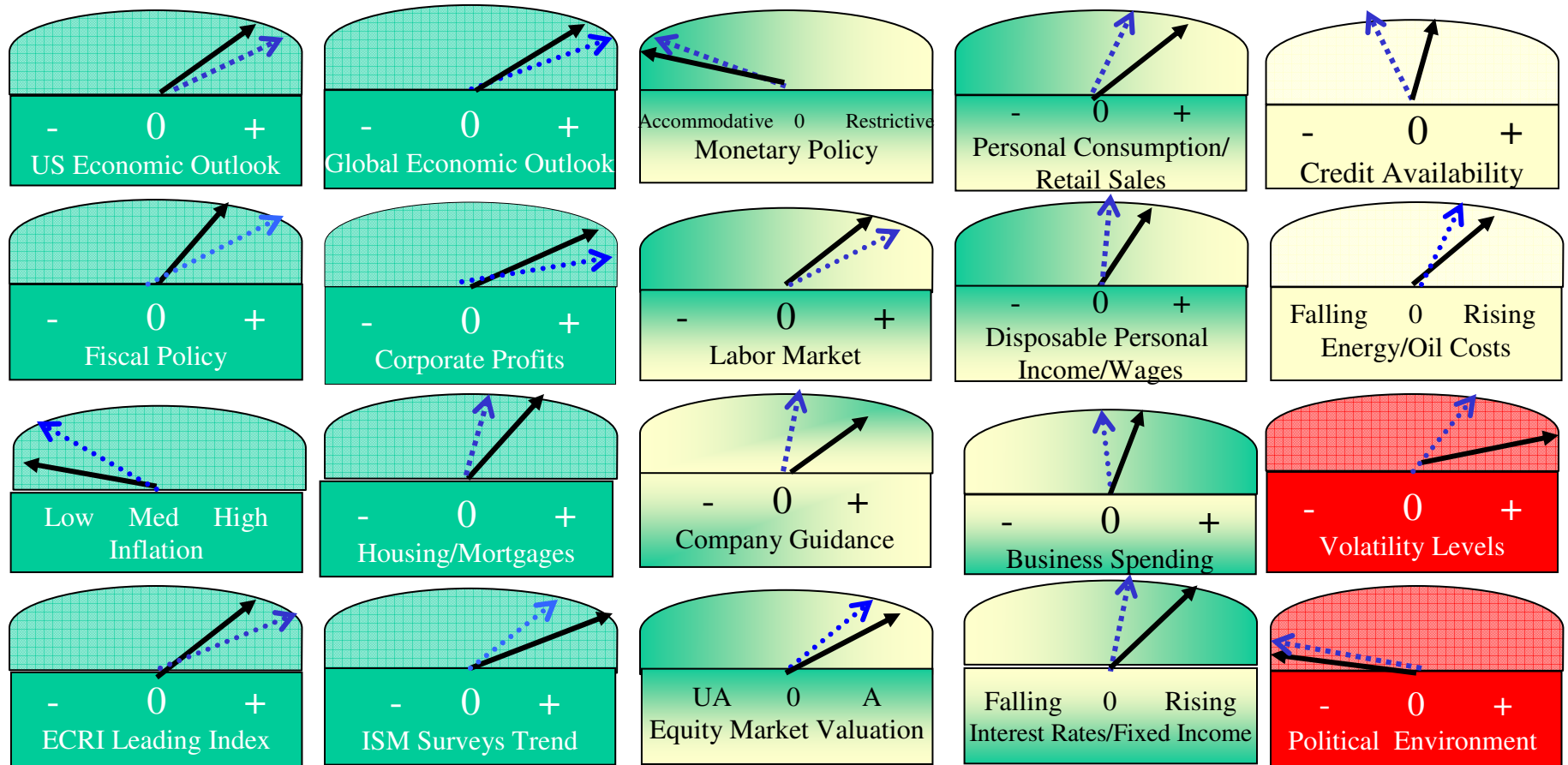
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# Economic and Financial Indicators

June 2010

**Positive**

**Neutral/Negative**



↖ This Month ↗ Last Month

**Indicators Reflect Forecasts of a 3-6 Month Time Horizon**



Sources: Wall Street Journal, Conference Board, Federal Reserve, Rochdale Investment Management 6/7/10

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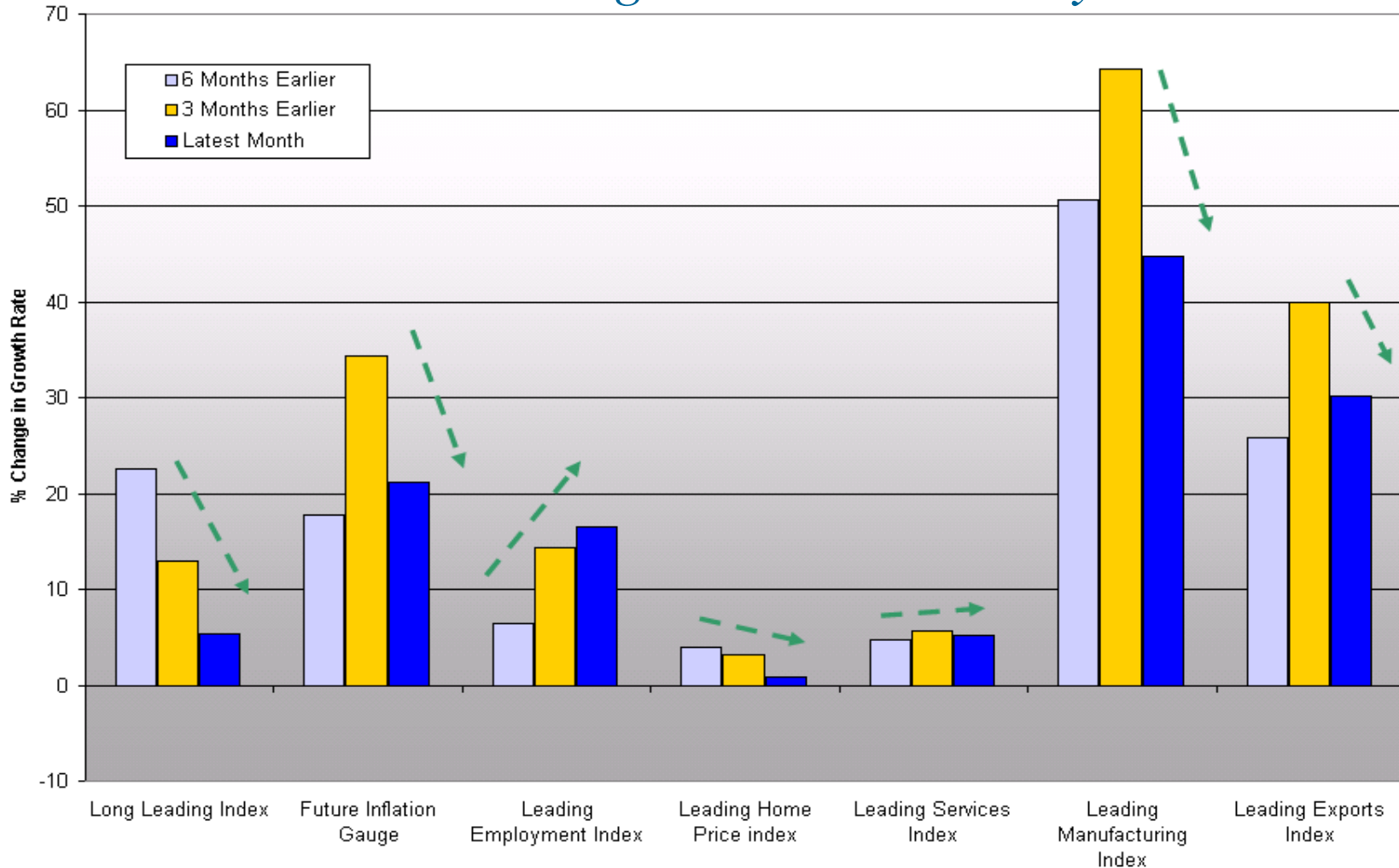
# Rochdale Economic Multifactor Model

## Moderate Growth Ahead

Economic Recovery Monitor			
Indicator	Status	Outlook	Score
ECRI Leading Indicators	Leading Indexes signal decelerating growth but sustained, moderate expansion into 2011.	Positive	8
Labor Market	Overall cyclical outlook is positive. Household survey, a better indicator at turning points, shows solid employment ahead which will support slow and steady consumer spending.	Positive	8
Monetary Policy	Fed to remain accommodative, keeping interest rates extraordinarily low for an extended period of time.	Positive	10
Consumer	Fundamentals are improving enough to neutralize headwinds. Solid, sustained consumption ahead, though spending remains below long term historical rates.	Positive	7
Business Surveys (ISM/PMI)	Business survey results are indicated sustained moderate growth.	Positive	8
Fiscal Policy	Government spending attempting to replace reduced private sector demand. Roughly half of last year's stimulus is still to be spent.	Positive	8
Global Economic Growth	Sustained global economic recovery. Strong Emerging Markets growth offsetting slower growth in Developed Economies.	Positive	8
Inflation/Interest Rates	Near term outlook is positive. Concerns that massive money creation by the Fed will lead to spiraling inflation are premature at this point, since private credit creation is still low.	Positive	9
Real Estate	Housing is bottoming and showing signs of a modest recovery over the 2H 2010, though some regional markets will lag. Commercial Real Estate in the process of bottoming but fully until 2011.	Positive	7
Political Uncertainty	Risk of contagion from European sovereign debt crisis in the form of slower global growth and reduced global demand and stock market volatility.	Negative	3
<b>Total</b>			<b>7</b>

# US Recovery Remains on Track

*But Economic Strength to Moderate by Mid-Year*



While the US expansion will continue and a double dip recession remains unlikely, a growth rate cycle downturn is in clear sight.



Source: Economic Cycle Research Institute, "U.S. Cyclical Outlook," May 2010.

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# Rochdale Stock Market Multi-Factor Model

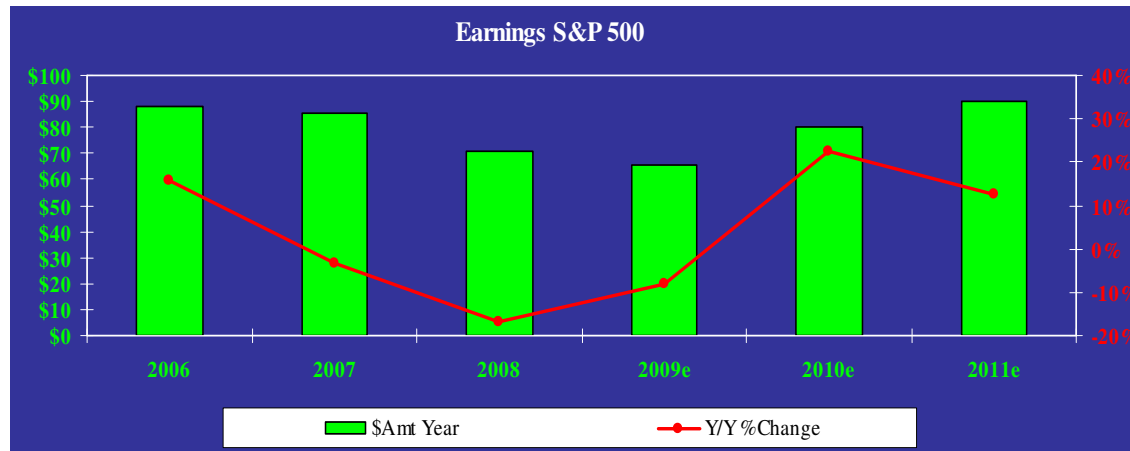
## Equity Outlook: Positive

Equity Market Scorecard			
Indicator	Status	Outlook	Score
Earnings Growth	Very positive V-shaped growth for 2010 & 2011 on improved operating leverage and resumption in revenue growth.	Positive	9
Liquidity	Funds continues to flow from money markets to riskier assets, yet the flow to bond vs equities indicates we are still far from a level of retail participation that would indicate a market top. Money supply growth has recently bottomed and started to increa	Positive	9
Yield Curve	Very favorable for equities. Outlook is for higher interest rates, but still low overall & supportive of economic growth. Early stages of interest rate increases often coincide with an improving economy and stock market.	Positive	9
ECRI Leading Economic Indicators	Cyclical downturns in stock prices have almost always followed post-recession slowdowns in growth. Over this period, the risk of smaller stock price corrections is higher..	Neutral	7
Valuation	At 13x 2011 earnings, the market is undervalued relative to interest rates and historical averages.	Positive	8
Political Environment	Market continues to discount at least 15% on uncertainty over policy effectiveness, historical debt levels, sovereign risk, rising taxes and regulation. Need to avoid policy mistakes on interest rates, taxes and deficits.	Negative	4
Volatility	Uncertainty and the impact and the impact of forced selling from derivative and leverage exposure is high.	Negative	3
Investor Sentiment	Sentiment has been mildly bullish, but isn't as elevated as it typically would be after recent gains. Flows have been surprisingly light into stock funds, indicated a degree of investor skepticism and much more potential for retail involvement.	Positive	6
<b>Total</b>			<b>8</b>

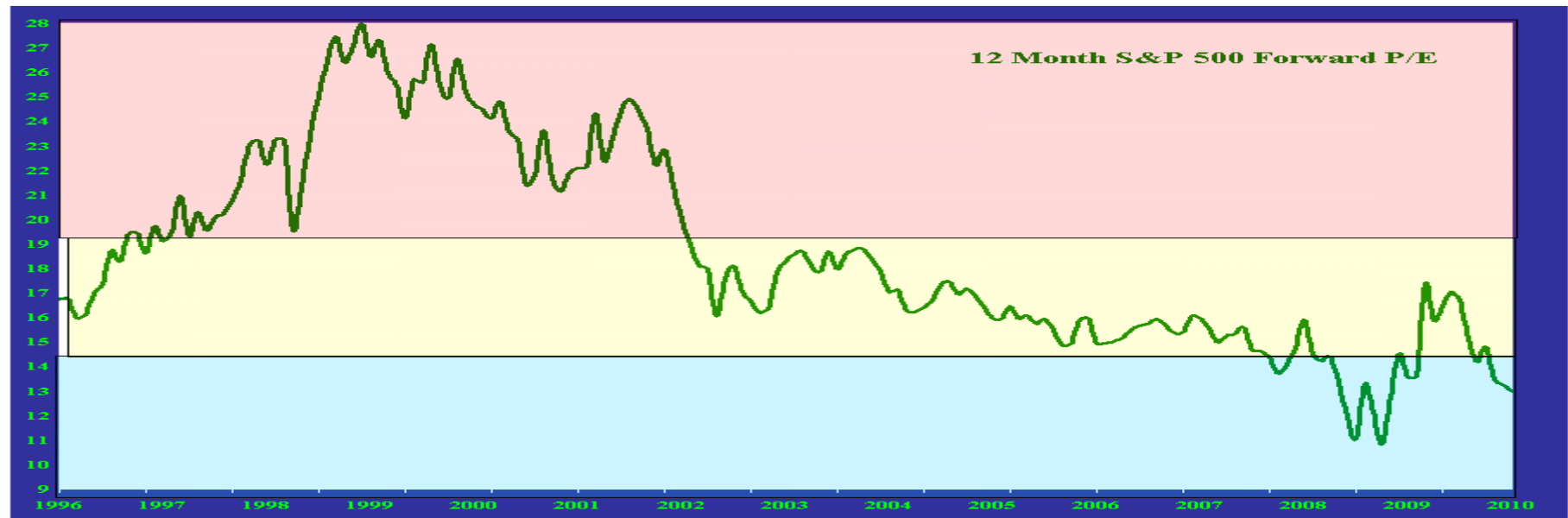
Score	Equity Allocation
0 to 1	At or below minimum of equity allocation range
2 to 4	Underweight
5	Neutral Weight
6 to 7	Overweight
8 to 10	Fully invested to maximum equity allocation range

# Corporate Earnings & Market Valuation

## “V-Shape Recovery in Earnings Forecasted”



Rochdale 2011 EPS Forecast: \$90		
Forward P/E Multiple	S&P 500 Fair Value	Change (from 6/1/10)
13	1170	9%
14	1260	18%
15	1350	26%



Attractively Valued
  Fairly Valued
  Overvalued



Source: Rochdale, Thomson Financial, Baseline 6/5/10

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# Sector/Industry Outlook

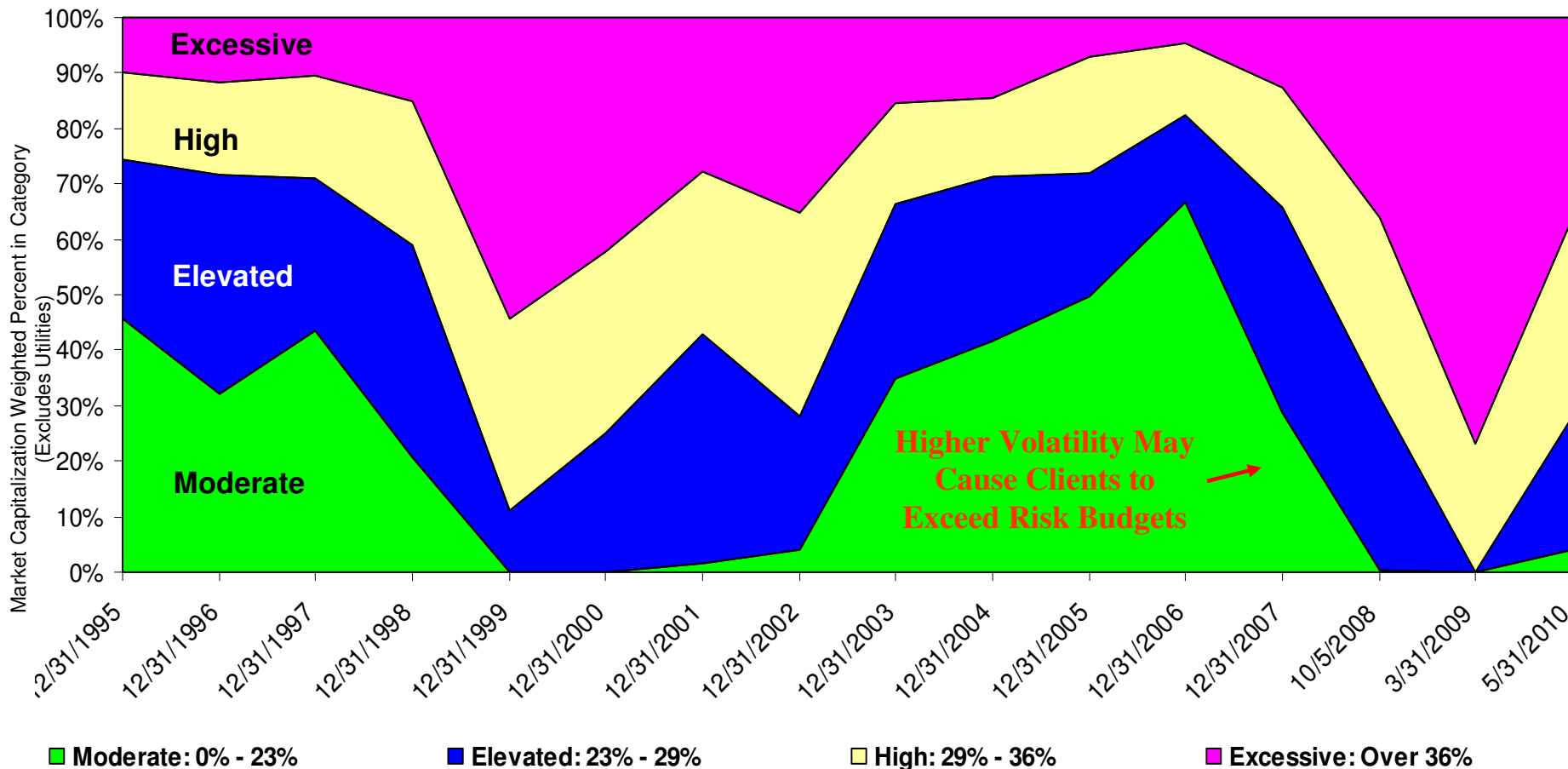
Weighting	Industry Group	Sector	Factor Grade				
			Value	Growth	Quality	Technical	Economic
Overweight	Capital Goods	Industrials	=	+	+	+	+
	Automobiles & Components	Consumer Discretionary	=	+	-	+	+
	Media	Consumer Discretionary	+	=	=	+	+
	Insurance	Financials	+	=	=	+	+
	Real Estate	Financials	-	+	-	+	+
	Software & Services	Information Technology	=	+	+	=	+
	Technology Hardware & Equipment	Information Technology	=	+	+	=	+
	Semiconductors & Semiconductor Equipment	Information Technology	=	=	+	=	+
Equal Weight	Consumer Durables & Apparel	Consumer Discretionary	=	+	=	+	=
	Energy	Energy	+	-	=	-	+
	Materials	Materials	+	+	-	-	+
	Consumer Services	Consumer Discretionary	-	+	+	=	=
	Retailing	Consumer Discretionary	-	+	=	+	=
	Commercial & Professional Services	Industrials	=	-	=	=	=
	Diversified Financials & Int'l Banks	Financials	=	=	-	-	=
	Transportation	Industrials	-	+	=	=	=
Underweight	Food & Staples Retailing	Consumer Staples	+	-	+	-	=
	Food Beverage & Tobacco	Consumer Staples	=	-	+	=	=
	Household & Personal Products	Consumer Staples	=	-	+	=	-
	Domestic Banks	Financials	=	=	-	=	-
	Pharmaceuticals Biotechnology & Life Sciences	Health Care	+	-	+	-	=
	Health Care Equipment & Services	Health Care	+	=	+	=	=
	Telecommunication Services	Telecommunication Services	=	-	=	-	=
	Utilities	Utilities	+	-	=	-	=

Industry Group weightings are driven by a combination of proprietary model ranking and fundamental analysis. Weightings pertain to Rochdale's target portfolio and do not necessarily reflect the current allocation of any actual portfolio.



# S&P 500 Volatility Zones - 1995 to 2010

## Heightened Risk Environment Continues



Persistent, heightened volatility requires investors to revisit portfolio allocations and rethink approach to equity investing. An adjustment to the portfolio's equity allocation may be necessary to meet risk tolerance.

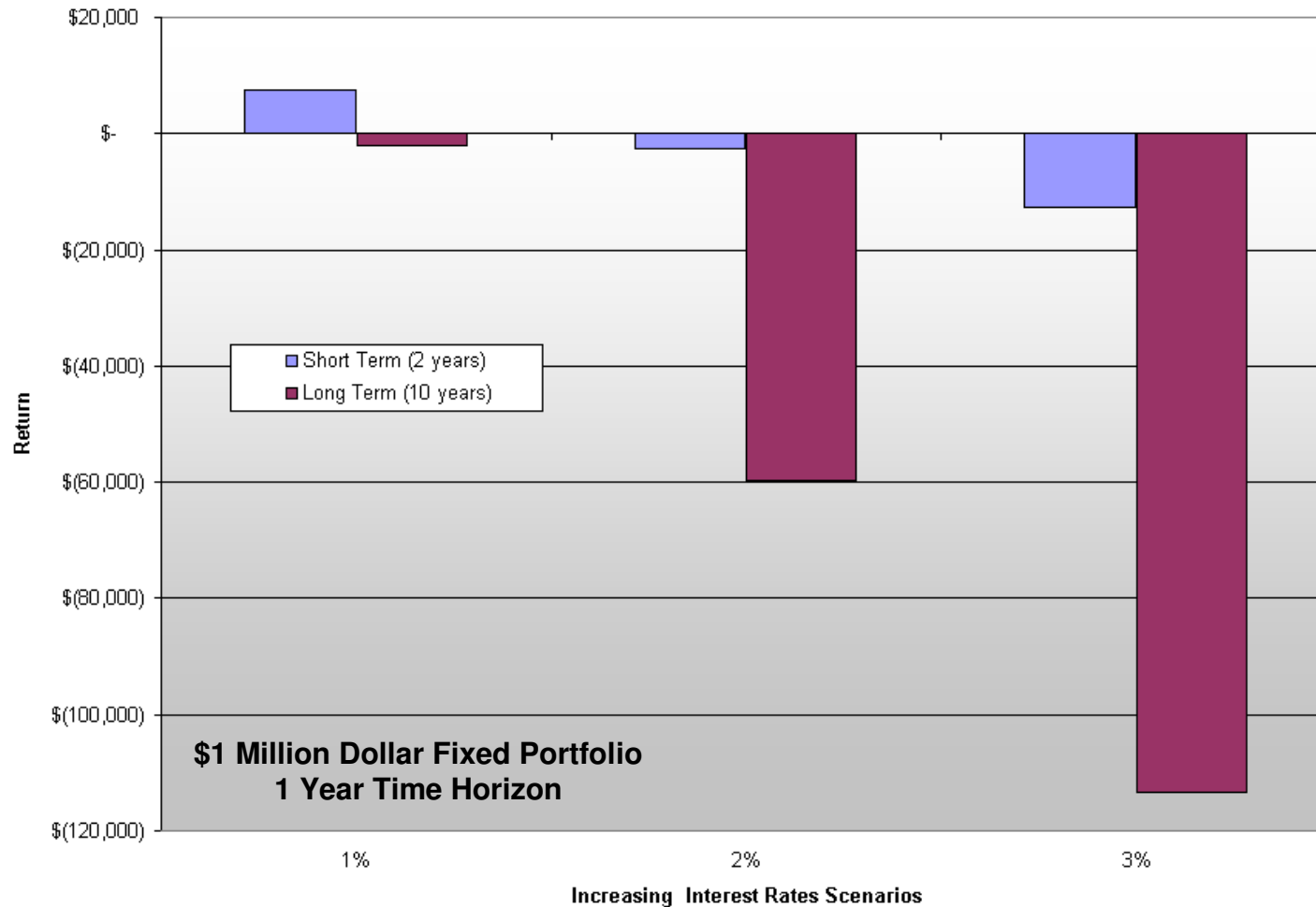


As of June 2010. Rochdale Investment Management uses Barra Inc.'s Aegis System™ 'Total Risk' data as a measure of volatility. Barra Inc.'s Aegis System™ is a third party equity risk management software package used to help assess risk/return trade offs.

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# Higher Interest Outlook is Negative for Fixed Income



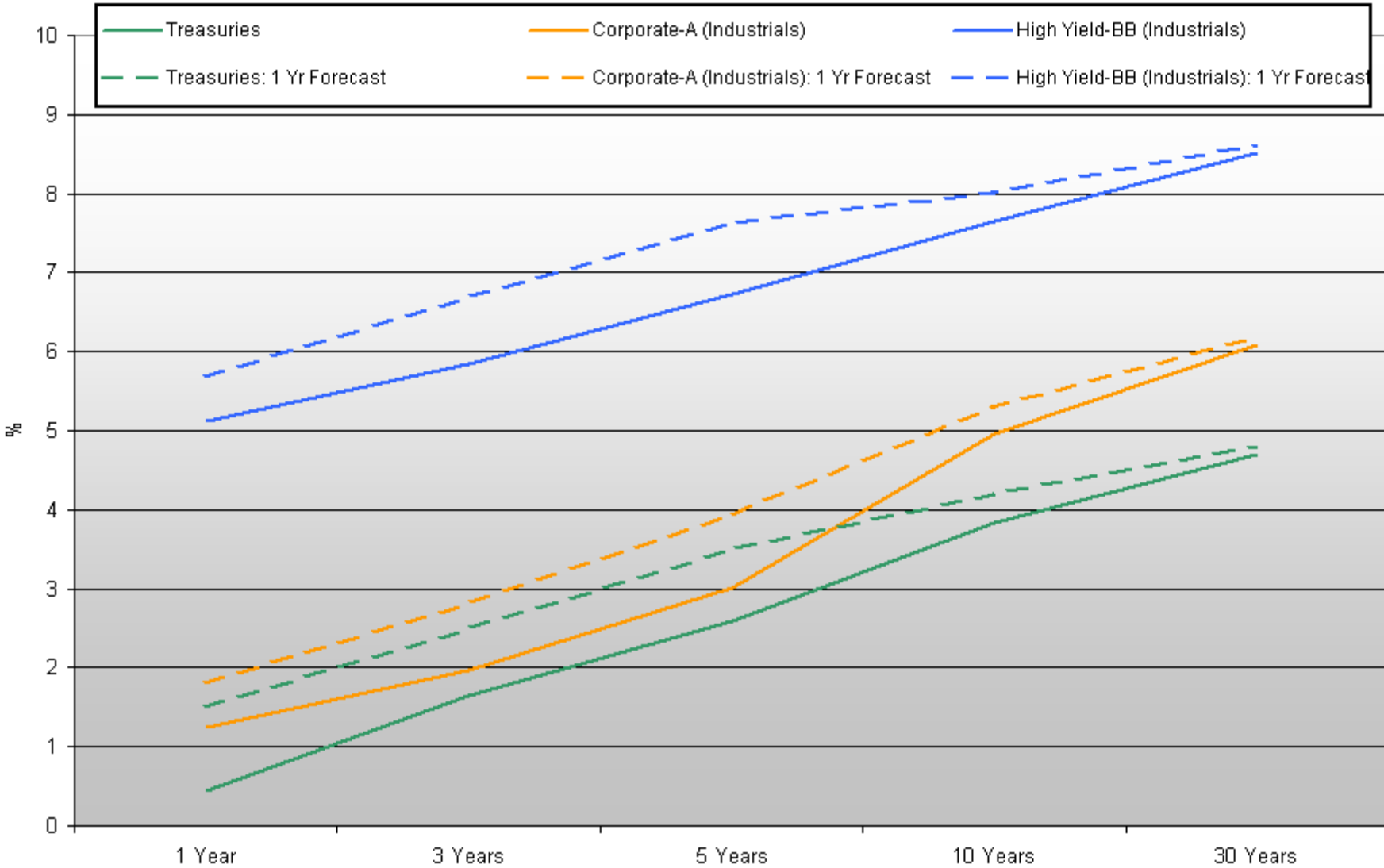
Higher interest rates will have a negative impact on fixed income holdings, particularly longer term maturities.

**Implication:** Underweight fixed income



For illustrative purposes, comparison is between Verizon Communications 6.857, 6/15/2012 bond and Verizon Communications 6.350, 4/1/2019 bond.

# Yield Curve



Sources: Blue Chip Financial, Thomson Baseline, Morgan Keegan,  
 Rochdale Investment Management  
 May 2010

# Capital Market Assumptions

## *Average Normalized Expectations*

Asset Class	Near Term Trend	Intermediate Term Expectations*	Historical Longer Term Average	Annualized Risk (%) (1)	Downside Exposure (%) (2)
Large Cap	Positive	9 - 10	9 - 10	15 - 17	25 - 35
Small/Mid Cap	Positive	10 - 12	11 - 12	21	35 - 45
International	Positive	11 - 15	10 - 13	23	30 - 45
Dividend and Income	Positive	8 - 10	8	15	20 - 30
Fixed Income (Investment Grade)	Neutral	4 - 5.5	6.5	5 - 7	5 - 10
High Yield Fixed Income	Positive	8 - 9	8 - 9	12 - 15	25
International Trade Finance	Positive	3 - 5	5	2 - 5	5
Low Volatility Alternative Strategy	Positive	7 - 9	7 - 8	5 - 10	10 - 15
Cash	Neutral	1	2.5 - 3	0	0

(1) Expect 1 out of every 4-5 years      (2) Expect 1 out of every 10-15 years

\*Subject to oil, interest rates and housing staying within forecasted ranges

**Annualized Return** is the average expected annual change of an asset class value estimated over a long-term period.

**Annualized Risk** is defined as an annual standard deviation of return or a degree of uncertainty of annual return estimated over a long-term period.

**Downside Exposure** represents the longest continuous decline in an asset class extending one or more years.

Past performance is not indicative of future results. There can be no guarantee of future performance.



# Portfolio Strategy

Asset Class	Portfolio Strategy	
	Short Term	Long Term
<b>US Stocks</b>	<b>BUY (Neutral Weight)</b> Monetary & Fiscal Policy Actions Support Economic Recovery V-shaped Earnings Recovery Volatility Likely to Remain Elevated	<b>BUY</b> Reasonable Valuations Slower Economic Growth Than in Prior Recoveries (Square Root Recovery)
<b>HDI Stocks</b>	<b>BUY (Overweight)</b> Attractive Valuations Yields Attractive in Current Low Inflation Environment Profitable in Slow Growth Environment	<b>BUY</b> Attractive Cash Flow Yields Higher Current Cash Flow than Common Stocks and Fixed Income Growing Dividend Income Mitigates Effects of Inflation & Rising Interest Rates Potential for Moderate Capital Appreciation
<b>International Stocks</b>	<b>BUY (Overweight)</b> Long Leading Indexes Predicting Positive Growth for Non-Japan Asia Eurozone & Japan Expected to Lag US & Asia Focus on Select Emerging Markets	<b>BUY</b> Asia in Better Fiscal Condition & Better Secular Growth vs. US Productive Stimulus Impact Stronger Demographics vs. US Reasonable Valuations
<b>Bonds</b>	<b>BUY (Under Weight)</b> Treasuries: Overvalued (Possible Short Sale) Investment Grade: Interest Rates Reasonable, Stay Short/Intermediate Term. Return of the "risk premium".	<b>HOLD</b> Inflation & Interest Rate Risk Stay Short to Intermediate
<b>High Yield (Bonds &amp; Loans)</b>	<b>BUY (Overweight)</b> Attractive Valuations and Yields when Compared to Traditional Fixed Income Opportunity For Capital Appreciation Senior Bank Loan Market Opportunities Price Discounts In Place to Compensate for Expected Defaults Can Be Profitable in Slow Growth Recovery	<b>BUY</b> Higher in Capital Structure Than Common and Preferred Capital appreciation potential due to liquidity premium Some Floating Rate Offers Inflation Risk Mitigation
<b>Private Trade Financed Fixed Income (Senior Secured Loans)</b>	<b>BUY</b> Attractive Yield Spreads Floating Yields Spreads Offer Inflation Mitigation Hard Asset Collateralized Loans Principal and Interest Cash Flow Generation Short Term Maturities	<b>BUY (Intermediate Term)</b> Well Collateralized, Low Default Risk Floating Rate Offers Inflation Risk Mitigation Dislocation in Market Creates Attractive Opportunities Rigorous Underwriting of Pricing & Structure
<b>Structured Legal Claims Settlements</b>	<b>BUY</b> Safety of Principal Known Principal & Interest Payments High Yield-Attractive Returns when Compared to Traditional Fixed Income & Annuities Strong Reinvestable Cash Flow Opportunity to Capture Distressed Pricing	<b>BUY</b> Can Bring Stability and Diversification to Overall Client Portfolios. Greater Cash Flows Allow Reinvestment in Higher Return Generating Asset Classes. Self-liquidating Pool Subjects Portfolio to Lower Capital Fluctuations (Interest Rate Risk)
<b>Alternative Low Volatility Strategies</b>	<b>BUY (Overweight)</b> Good Quality/Lower Volatility/ Diversifier for Equities Brings Low Correlation Portfolio Benefits Diversification Benefits/ Return Enhancer For Fixed Income	<b>BUY</b> Hedged Strategies Generate Favorable Upside vs. Downside Over Equities Low Correlation with Equities Takes Advantage of Volatility Across Markets
<b>AI: High Volatility, High Leverage</b>	<b>AVOID</b> Risky & Illiquid Forced Deleveraging	<b>HOLD</b> Lower Returns Due to Lingering Credit Tightness Liquidity Issues

These represent the opinions of Rochdale Investment Management and are subject to change without notice.

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Sources: Rochdale Investment Management, June 2009

Blue Chip Economic Indicators,

Wall Street Journal, Conference Board, Federal Reserve



# Important Disclosures

The Standard & Poor's (S&P) 500 Index represents 500 large U.S. Companies.

The ECRI's U.S. Long Leading Index (USLLI) is a composite index designed to lead cyclical swings of the U.S. economy. It is a comprehensive summary measure of U.S. economic conditions made up of leading indicators of the U.S. economy including measures of production, employment, income, and sales.

U.S. Leading Employment Index (USLEI) is designed to lead cycles in U.S. employment activity. It is a summary measure of the best leading indicators of U.S. employment activity.

U.S. Leading Home Price Index (USLHPI) is designed to lead cyclical swings in real median home prices. It is a summary measure of the best leading indicators of U.S. home prices.

U.S. Leading Services Index (USLSI) is designed to lead the service sector activity. It is a summary measure of the best leading indicators of U.S. service sector activity.

U.S. Leading Manufacturing Index (USLMI) is designed to lead the manufacturing sector activity. It is a summary measure of the best leading indicators of U.S. manufacturing sector activity.

U.S. Leading Exports Index (USLEI) is designed to lead cycles in exports. It is a summary measure of the best leading indicators of U.S. export activity.

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